Consolidated Statement of Earnings

(In thousands, except per share data)	1985 52 Weeks	1984 53 Weeks	1983 52 Weeks
Sales	$3,977,913	$3,724,294	$3,101,682
Costs and expenses			
Cost of goods sold, including occupancy and buying costs	2,850,599	2,702,055	2,240,404
Selling, general, and administrative expenses	923,504	862,272	706,368
Interest expense and discount, net	131,235	117,237	92,345
	3,905,338	3,681,564	3,039,117
Earnings from continuing operations before nonoperating income and income taxes	72,575	42,730	62,565
Nonoperating income			
Loss on sale of Holt Renfrew	(2,450)		
Costs relating to unsolicited tender offer		(7,100)	
Gain on sale of joint venture interest			12,768
Gain on retirements of debentures			4,252
	(2,450)	(7,100)	17,020
Earnings from continuing operations before income taxes	70,125	35,630	79,585
Income taxes	22,100	8,500	24,200
Earnings from continuing operations	48,025	27,130	55,385
Discontinued operations			
Earnings (loss) from operations, net of income taxes of ($1,050) and $10,600		(510)	12,100
Gain on sale of Waldenbooks, net of income taxes of $29,850		63,050	
		62,540	12,100
Net earnings	$ 48,025	$ 89,670	$ 67,485
Primary earnings per common share			
Continuing operations	$ .92	$	$ 1.57
Discontinued operations		2.75	.36
	$ .92	$ 2.75	$ 1.93
Fully diluted earnings per common share			
Continuing operations	$	$ .83	$ 1.56
Discontinued operations		1.89	.34
	$ *	$ 2.72	$ 1.90

*Fully diluted earnings per common share are not shown as the effect of the calculation is anti-dilutive.

See accompanying Summary of Significant Accounting Policies and Financial Review.

Consolidated Balance Sheet

(In thousands)	*February 1, 1986*	*February 2, 1985*
Assets		
Current assets		
Cash	$ 18,147	$ 22,727
Accounts receivable, net	292,785	125,524
Merchandise inventories	776,831	717,300
Receivable on sale of Holt Renfrew	29,682	
Other current assets	41,416	39,487
	1,158,861	905,038
Property and equipment, net	855,494	823,569
Investment in finance subsidiaries	142,916	143,864
Other assets	77,496	74,735
	$2,234,767	$1,947,206
Liabilities and Shareholders' Equity		
Current liabilities		
Notes payable and current installments	$ 84,707	$ 50,370
Accounts payable	344,036	285,466
Accrued liabilities	158,967	134,562
Dividends payable	6,145	5,983
Current income taxes	8,355	16,933
Deferred income taxes	114,399	99,648
	716,609	592,962
Long term debt	551,613	396,654
Capital lease obligations	145,940	152,006
Other liabilities	57,857	55,922
Long term deferred income taxes	103,394	101,496
Redeemable preferred stock, $5 par value, stated at redemption value of $300 per share	300,000	300,000
Common stock, $5 par value	97,797	95,334
Other paid-in capital	149,957	140,358
Accumulated earnings	111,600	112,474
	$2,234,767	$1,947,206

See accompanying Summary of Significant Accounting Policies and Financial Review.

(In thousands)	1985	1984	1983
Cash from continuing operations			
Earnings from continuing operations	$ 48,025	$ 27,130	$ 55,385
Depreciation and amortization	75,017	72,278	65,796
Deferred income taxes	23,494	345	25,532
Loss on sale of Holt Renfrew, net of income taxes	2,519		
Gain on sale of joint venture interest, net of income taxes			(8,644)
Gain on retirements of debentures, net of income taxes, excluding gain attributable to the finance subsidiaries			(1,284)
Equity in undistributed earnings of finance subsidiaries			(15,304)
Cash from continuing operations	149,055	99,753	121,481
Cash from discontinued operations, including depreciation and deferred income taxes		4,654	22,078
Cash proceeds from sale of Waldenbooks, net of income taxes of $29,850		265,150	
	149,055	369,557	143,559
Financing			
Net increase (decrease) in notes payable	(41,089)	41,089	
Issuances of long term debt	250,000	50,000	15,000
Issuance of redeemable preferred stock		300,000	
Issuances of common stock	12,062	14,182	66,530
Retirement of common stock		(478,611)	
Redemption of nonredeemable preferred stock		(5,740)	
Reductions in long term debt and capital lease obligations	(25,681)	(18,880)	(78,695)
Net cash provided (used) by financing	195,292	(97,960)	2,835
Capital investments			
Store property and equipment purchased	(127,384)	(107,284)	(90,100)
Properties sold	20,442	1,350	41,545
Dividends from finance subsidiaries of prior year's earnings	948	13,542	
Net cash used for capital investments	(105,994)	(92,392)	(48,555)
Dividend payments	(53,638)	(50,129)	(43,454)
Other cash sources (uses)			
Accounts receivable, net	(167,261)	30,783	(10,492)
Merchandise inventories	(59,531)	(137,356)	(94,574)
Receivable on sale of Holt Renfrew	(29,682)		
Accounts payable and accrued liabilities	83,137	44,515	77,083
Prepaid pension contributions	(10,677)	(12,004)	
Other, net	(5,281)	(45,189)	(20,837)
Net other cash uses	(189,295)	(119,251)	(48,820)
Cash increase (decrease)	$ (4,580)	$ 9,825	$ 5,565

See accompanying Summary of Significant Accounting Policies and Financial Review.

Consolidated Statement of Nonredeemable Preferred Stock, Common Stock, and Other Shareholders' Equity

	Shares issued		*Par value*			
(Dollar amounts in thousands)	*Nonredeemable preferred*	*Common*	*Nonredeemable preferred*	*Common*	*Other paid-in capital*	*Accumulated earnings*
Balance, January 29, 1983	811,889	31,889,824	$ 4,059	$159,449	$ 214,009	$ 315,455
Net earnings						67,485
Cash dividends						
Common stock ($1.22 per share)						(41,979)
Nonredeemable preferred stock						(1,475)
Issuance of common stock		2,475,000		12,375	38,757	
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan		275,996		1,380	3,966	
Issuance of common stock to Profit Sharing Plan		389,249		1,946	5,563	
Conversion of nonredeemable preferred stock	(102,253)	172,528	(511)	863	(352)	
Exercise of stock options		137,975		690	1,853	
Balance, January 28, 1984	709,636	35,340,572	3,548	176,703	263,796	339,486
Net earnings						89,670
Cash dividends						
Common stock ($1.22 per share)						(23,052)
Nonredeemable preferred stock						(71)
Redeemable preferred stock						(27,006)
Issuance of common stock under Employee Stock Ownership Benefit Plan		95,500		477	1,696	
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan		155,555		778	2,403	
Issuance of common stock to Profit Sharing Plan		263,846		1,319	3,819	
Retirement of common stock		(17,952,700)		(89,763)	(130,516)	(258,332)
Conversion of nonredeemable preferred stock	(582,070)	982,214	(2,911)	4,911	(2,000)	
Redemption of nonredeemable preferred stock	(127,566)		(637)		(1,621)	(3,482)
Exercise of stock options		181,890		909	2,781	
Foreign currency translation adjustment						
Cumulative adjustment—beginning of year						(3,139)
Current year adjustment						(1,600)
Balance, February 2, 1985	—	19,066,877	—	95,334	140,358	112,474
Net earnings						48,025
Cash dividends						
Common stock ($1.22 per share)						(23,638)
Redeemable preferred stock						(30,000)
Issuance of common stock under Employee Stock Ownership Benefit Plan		91,746		459	2,154	
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan		118,444		592	2,522	
Exercise of stock options		282,348		1,412	4,923	
Reversal of foreign currency translation adjustment						4,739
Balance, February 1, 1986	—	19,559,415	$ —	$ 97,797	$ 149,957	$ 111,600

See accompanying Summary of Significant Accounting Policies and Financial Review.

Carter Hawley Hale
1985 Annual Report

Carter Hawley Hale Stores, Inc., is a major retailer operating six department and three specialty store divisions.

The company's specialty stores are Bergdorf Goodman, Contempo Casuals, and Neiman-Marcus. Its department stores are The Broadway–Southern California, The Broadway–Southwest, Emporium Capwell, Thalhimers, John Wanamaker, and Weinstock's. The company is well represented in many of the country's most important and dynamic cities, as illustrated on the map below.

Carter Hawley Hale customers, principally in the middle and upper income segments, find wide selections of fashionable merchandise priced competitively in all of the company's stores. These merchandise offerings are supported by a strong commitment to provide superior customer service.

Contents

Financial Highlights

(In thousands, except per share data)	*1985 52 Weeks*	*1984 53 Weeks*	*1983 52 Weeks*
Sales	$3,977,913	$3,724,294	$3,101,682
Earnings from continuing operations before interest expense, nonoperating income, and income taxes	$ 203,810	$ 159,967	$ 154,910
Net earnings			
Continuing operations	$ 48,025	$ 27,130	$ 55,385
Discontinued operations		62,540	12,100
	$ 48,025	$ 89,670	$ 67,485
Average common shares outstanding	19,601	22,731	34,247
Primary earnings per common share			
Continuing operations	$ .92	$	$ 1.57
Discontinued operations		2.75	.36
	$ .92	$ 2.75	$ 1.93
Fully diluted earnings per common share			
Continuing operations	$	$ .83	$ 1.56
Discontinued operations		1.89	.34
	$ *	$ 2.72	$ 1.90
Dividends per share of common stock	$ 1.22	$ 1.22	$ 1.22

**Fully diluted earnings per common share are not shown as the effect of the calculation is anti-dilutive.*

To Our Shareholders:

We are pleased to report that 1985 was marked by progress in improving our profitability and continuing our growth. At the same time, this progress fell short of our objectives, and consequently we have redoubled our efforts to ensure that improvement accelerates in 1986.

Sales increased seven percent for the year and approached the $4 billion mark, notwithstanding a weak general merchandise retail environment during the important fourth quarter.

Earnings from continuing operations increased 77 percent to $48.0 million compared with $27.1 million in 1984. On a fully diluted basis, earnings per share were $1.50 compared with $.83 in the prior year.

Both our department and specialty store segments achieved better performance results during 1985. This is a direct result of the strategies implemented over the last few years which allow us to offer our customers better selections of merchandise and improved service while increasing our ability to control costs.

During the past year we devoted substantial effort to improving customer service in our department stores. As part of this program, we have been phasing in an incentive compensation system for our department store salespeople. More importantly, our people are learning to do the little things that help increase customer satisfaction.

Customer service has been enhanced without increasing our selling, general, and administrative expense as a percentage of sales. This is due in part to the advanced information systems installed since 1980. These systems, and our growing ability to use them more productively, also helped us to manage inventories more effectively and thereby reduce our cost of goods sold as a percentage of sales for the year.

Our private label merchandise, developed by our Market Services division exclusively for our stores, accounted for a substantially larger proportion of our total sales for the year, helped to differentiate our selections from those of our competitors, and contributed to improvements in our margins.

During the coming year we will continue our emphasis on taking better care of our customers in all of our stores, believing that this is the most important job we have to do and that it is the most effective road to rapid and substantial profit growth.

At the same time, we have programs in place that will control costs and accelerate the progress we are making in improving our profitability. These programs will substantially reduce administrative and support service expenses that are not related to customer service, and lower our selling, general, and administrative expense percentage for the coming year.

Sale of Holt Renfrew

Late in the year we announced a decision to sell our only non-U.S. division, Holt Renfrew & Co., Ltd., in order to concentrate the company's financial and management resources on our U.S. operations.

In early April, we consummated the sale of this division to Toronto-based Wittington Investments Ltd., a private Canadian company, for $29.7 million. This transaction added $3.5 million to accumulated earnings, after a $2.5 million charge to 1985 earnings, and reduced the company's debt by $50 million.

Store Modernization and Openings

For the coming year we will continue our efforts to make our stores more appealing to our customers and more productive for our shareholders. We believe that store modernization is a highly effective way to improve individual store results and provides a good return on investment.

About $50 million was spent on modernization projects and new equipment in 1985, with more than a million square feet of store space remodeled during the year.

Two projects were particularly noteworthy. First, we completely remodeled the seventh floor of Bergdorf Goodman, an area of the store that was not previously used as retail space. With this floor completed, Bergdorf Goodman now offers one of the finest decorative home shopping experiences in New York City with tasteful and unusual products gathered from around the world.

The second project involved the renovation of the first and second floors of the Neiman-Marcus store in Dallas's NorthPark Center. This project was a continuation of the work begun in 1984 when we added a third floor of selling space to this very profitable store. We expanded our gift galleries, women's couture, and sportswear offerings; improved the use of natural lighting; and coordinated the layout of the store so that it is more convenient for our customers.

During 1985 we opened one high fashion specialty store, five department stores, and entered four new markets. Neiman-Marcus opened a 120,000 square foot store in Palo Alto, giving that division five stores in California and 22 stores across the country. We opened Thalhimers department stores in Roanoke, Virginia, and Charleston, South Carolina, while we closed two smaller Thalhimers in Danville, Virginia. The Broadway–Southern California opened a 135,000 square foot store in Horton Plaza, that division's sixth location in San Diego. And The Broadway–Southwest successfully entered the Denver market in November with two 135,000 square foot stores.

We continued our expansion of Contempo Casuals by opening 28 more stores during the year, including three well received stores in Hawaii. Over the last six years, the Contempo Casuals concept of retailing has been successfully introduced to a variety of diverse locations across the country, confirming our belief that this division can be built into a national operation. At year end, Contempo Casuals operated 133 stores in 12 states.

Our efforts in the new store area have already begun in 1986. We opened a Broadway–Southern California store in Escondido, California, in February. Its sales performance to date has exceeded our expectations. We will also open a Broadway store in South Coast Plaza in Costa Mesa, California, one of the most successful malls in the country, near the end of the year.

The Broadway–Southwest will increase its penetration of the Denver market by opening a store in the Westminster mall, and we will replace a small Thalhimers store in Durham, North Carolina, with a larger, more efficient store.

We will also continue our expansion program for Contempo Casuals by opening 35 more stores. During the coming year Contempo will enter thirteen new states including New York, Connecticut, Minnesota, Pennsylvania, and Alabama.

Financing Activities

During the year we sold $250 million of 10 year notes, with $100 million carrying a rate of 11⅛ percent and $150 million carrying a rate of 11 percent. Proceeds were used to reduce short-term borrowings.

Executive Changes

At The Broadway–Southern California division, M. W. Proudfoot, who began his career with Weinstock's in 1952 and served in a number of executive positions for the company, retired as chairman. H. Michael Hecht, president of the division, was appointed chairman and chief executive officer, and Richard F. Clayton, formerly an executive vice president with Emporium Capwell, was named president.

Gregory C. Crews, who had been a senior vice president and general merchandise manager with our Market Services division, was named president and chief executive officer of that division.

Edwin J. Holman, formerly senior vice president operations at Neiman-Marcus, was appointed to the newly created position of senior vice president operations for Carter Hawley Hale.

Outlook for 1986

The general economic outlook for 1986 is mixed with consumer spending expected to grow in line with the overall economy and the general retail environment continuing to be highly competitive.

Given this economic outlook, we have put in place a major expense reduction program in all non-selling areas of our business in order to fund improved levels of service to our customers while at the same time reducing selling, general, and administrative expenses when measured as a percentage of sales. This program should accelerate our rate of profit improvement and growth during the coming year.

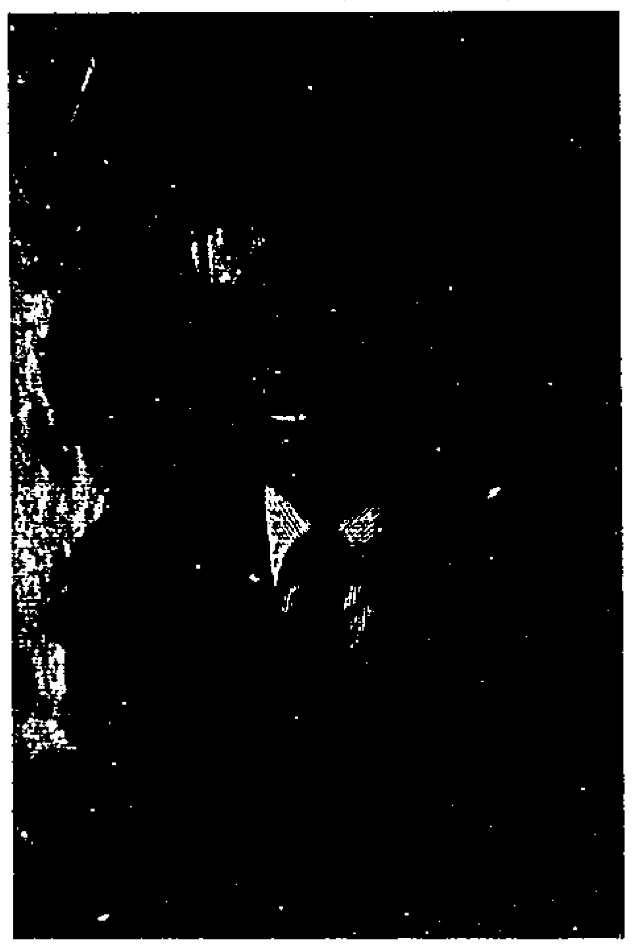
I wish to thank my associates who have worked tirelessly over the past several years to put in place major changes which now position us to be a highly effective and profitable competitor in the years ahead. These changes have been designed to make us an outwardly focused, customer motivated company, in the belief that paying more attention to the needs and desires of our customers will result in higher profitability and success for our shareholders.

Sincerely,

Philip M. Hawley

Philip M. Hawley
Chairman and Chief Executive Officer

April 9, 1986



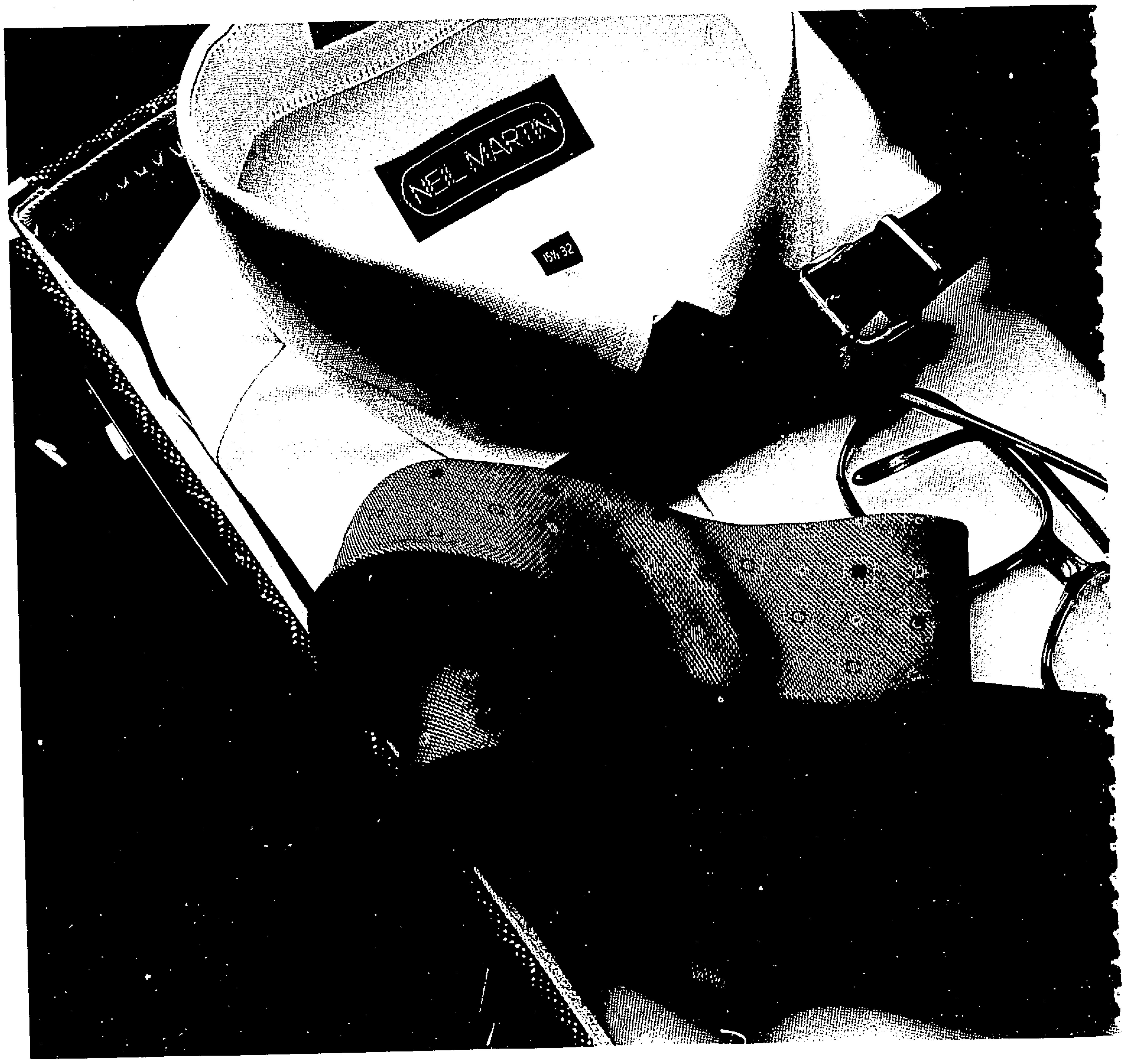
Retailing is a highly competitive and changing business where success depends on providing compelling reasons for customers to shop in your stores. Successful retailers offer a superior combination of fashion, quality, value, convenience, and service mixed with an element of theater.

Retailing in the late 1980s also calls for close attention to expenses and productivity. We have addressed this in a number of ways.

Through the use of advanced information systems, our sales and inventories are monitored on a more current basis. This reduces the risks inherent in a business so dependent on changing fashion trends and allows us to recognize and take advantage of opportunities as they develop.

Centralized buying is used whenever possible to reduce travel expenses and take advantage of economies of scale, and our merchandise offerings include significant proportions of unique private label goods in order to differentiate our stores from the competition's and improve our profit margins.

Store modernization is an area of concern and is especially important in an age with fewer and fewer new store openings. Modernization not only increases our sales and profits, but also improves customer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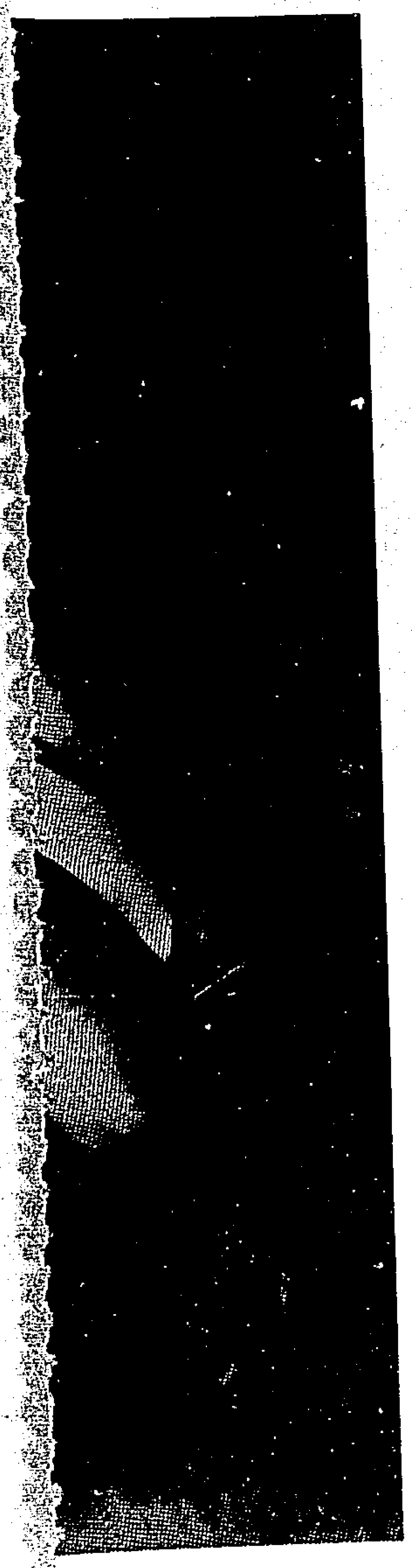
satisfaction, since layout, lighting, and presentation can be changed to more effectively enhance the shopping experience.

Attention to expenses and productivity has also led us to consolidate certain functions so that dollars could be reallocated to areas needing improvement. For instance, improved credit information systems require fewer people to manage this important part of our business. Some of these savings have been used to increase the number of salespeople in our stores to improve overall customer service. Improved customer service has then provided a substantial driving force for our business, in certain test programs, and allowed us to reduce advertising and promotion expenses.

We believe Carter Hawley Hale is well positioned to effectively compete in the retail industry during the remainder of this decade and beyond. Strategies implemented over the last few years have put us in the forefront in such areas as information systems and private label. But while progress has been made, more needs to be done.

In 1985 we launched the Carter Hawley Hale Center for Education. The Center helps create a sense of corporate identification by fostering interaction among our executives and communicating corporate



Private Label

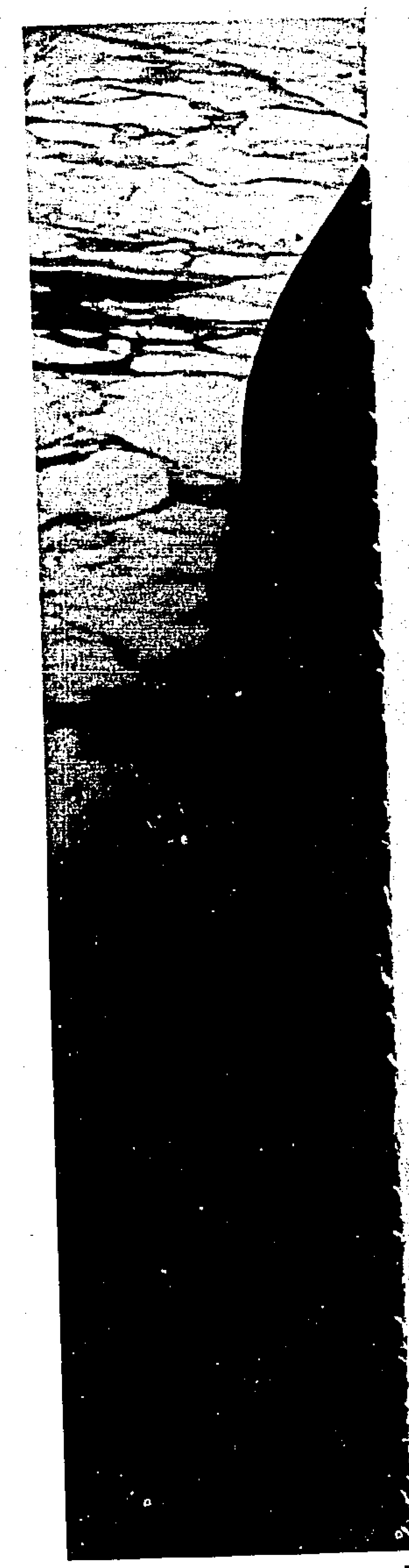
One of our most successful developments of private-label merchandise carries the Neil Martin label. This line of menswear is expertly manufactured according to our own designs and production specifications. Neil Martin shirts, ties, suits, jackets, and slacks are of equal or superior quality to those carrying nationally recognized labels, and offer higher profit margins for Carter Hawley Hale. For our customers, the lower price tag means greater value.

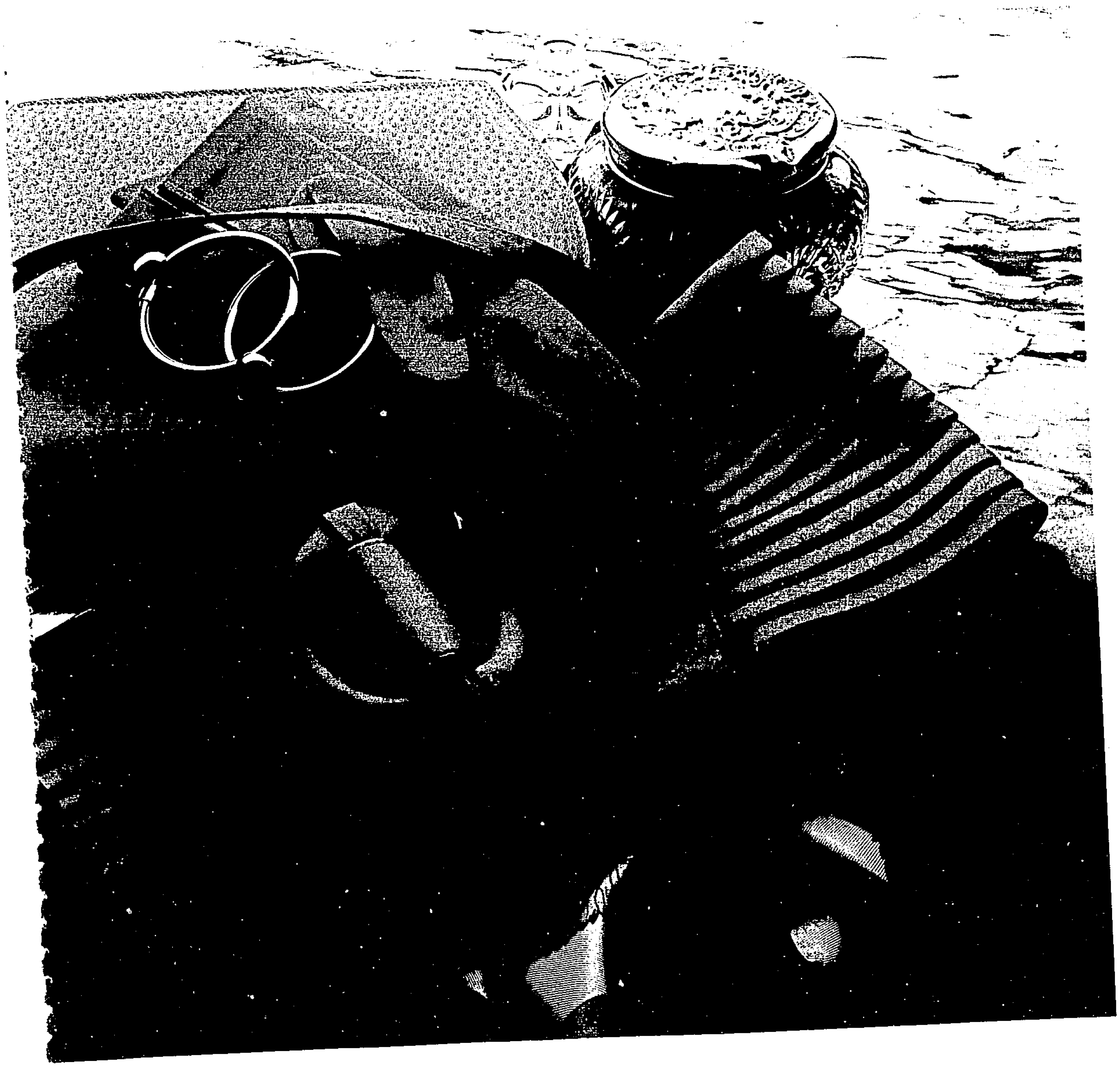
direction. It provides opportunities to develop and enhance the management skills of each attendee through education, example setting, and positive reinforcement. Through its curriculum, the Center provides new and creative approaches and techniques for increasing job effectiveness, particularly through enhanced systems development training. Most importantly, it plays a leadership role in helping to make Carter Hawley Hale become the best customer service organization in the retail industry.

All of our merchandising personnel, approximately 650 executives, attended the first year's program and 1,200 more executives are scheduled for the coming year. This year's attendees will represent a cross-section of the company's management, from senior executives at the corporate headquarters to relative newcomers at the divisional level. The Center for Education represents a unique approach to improve the productivity of our people.

Customer service is another area where we need to improve our performance. Numerous surveys show that poor customer service has been a major shortcoming in most stores.

We are addressing this situation with a broad program we developed using our Neiman-Marcus division, one of the finest customer





service organizations in the world, as the model. At Neiman-Marcus, customer service is much more than merely waiting on people—it is a state of mind. We believe we can establish and nurture this same attitude toward customer service in our department stores.

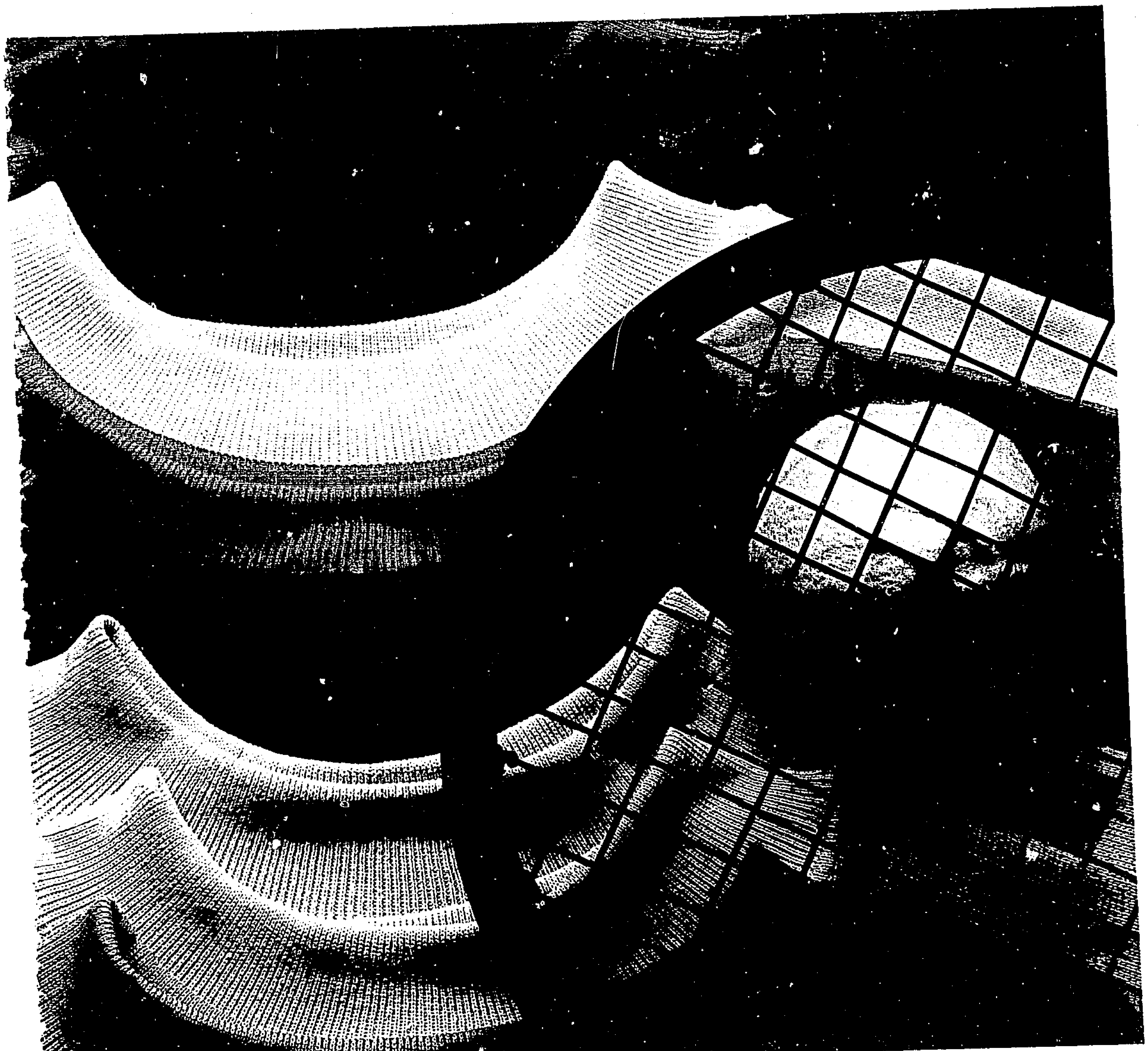
Outstanding customer service requires much more than simply paying salespeople on a commission basis. It involves extensive training that covers product and fashion information, communication and selling skills, and other activities that increase the satisfaction customers receive from an enjoyable shopping experience.

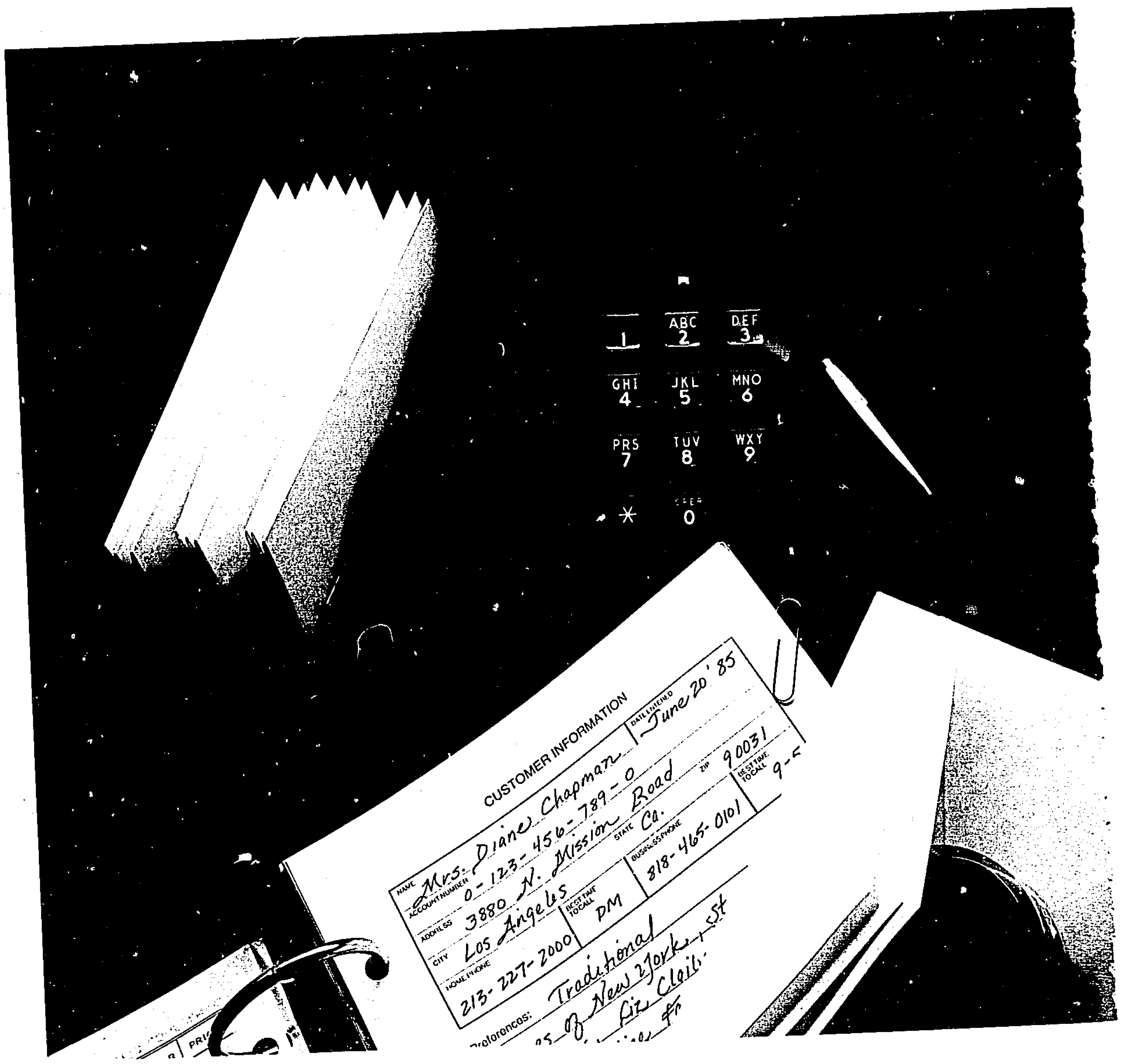
In addition, it involves streamlining the administrative aspects of a salesperson's job so that more time and effort can be spent with customers.

Good customer service also means looking for less apparent ways to improve customer satisfaction. We have eliminated unnecessary transaction clearances that slow down the time it takes to make a purchase in our stores. New, faster point-of-sale terminals also enhance customer service in this regard. Security procedures have been adapted to be less inhibiting to the customer while still protecting the company's assets.

Complete Selections

Complete selections means that our customers can readily find the merchandise they want. Using a combination of finely tuned instinct and computer technology, our buyers keep watch on customer buying patterns, and are able to get in on a trend early, and get out quickly after it has reached its peak. If it's sweatshirts, we'll carry a wide assortment of styles and a rainbow of colors.

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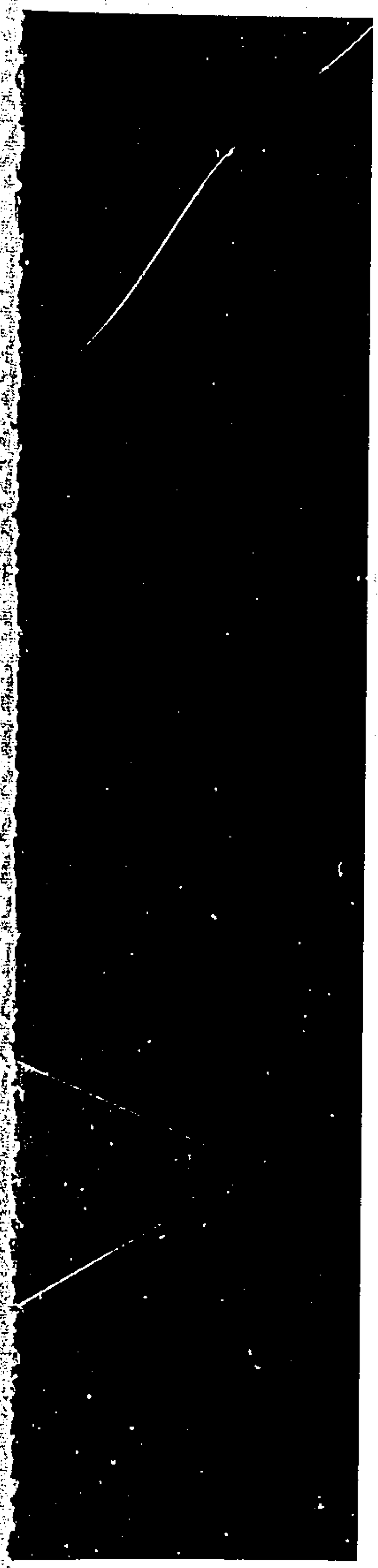

Customer Service

Personal attention by a knowledgeable sales staff wins customer loyalty. Using Neiman-Marcus as a model, we have developed a program to improve customer service in our department stores. Our sales staff is encouraged to know their customers' tastes in fashions and styles. Often the customer wants to be alerted when new merchandise arrives that fits her special needs. A personal note of appreciation following a sale increases the customer's satisfaction.

Credit policies have been changed so that our department stores not only accept our charge cards but also Visa, MasterCard, and American Express. Test programs have shown this change not only improved customer satisfaction, but also added incremental sales to our business.

We are confident that we can develop an improved attitude toward customer service in our department stores. Our confidence has been bolstered by the results already achieved at Weinstock's, which served as the pilot division for this program over the last year. Our goal is to have all of our department stores providing the best customer service in the industry by the end of the decade.

At the beginning of this narrative, we pointed out that retailing is a highly competitive business. The American public is well served by this situation and has many options for shopping. We believe it is essential, therefore, that we continually work to maintain the highest standards in our facilities, merchandise, and service so that customers will prefer our stores to those of our competitors. Strategies to accomplish this are in place and our future is bright.

Results of Operations

The company improved its profitability and sales growth during 1985, notwithstanding a weak general merchandise retail environment during the important fourth quarter.

Net earnings from continuing operations improved 77.0 percent to $48.0 million compared with $27.1 million in 1984. Primary earnings per share from continuing operations were $.92 compared with zero earnings per share in 1984.

Sales increased 6.8 percent to $3,977.9 million for the 52 weeks ended February 1, 1986 compared with $3,724.3 for the 53 weeks ended February 2, 1985.

Sales for the 52 weeks ended January 28, 1984 were $3,101.7 million, with earnings from continuing operations of $55.4 million, or $1.57 primary earnings per share.

A number of unusual items affected the company's net earnings over the last three years. In order to better understand the improved operating earnings trend over this period, management believes it is helpful to examine earnings from continuing operations before interest expense, nonoperating income, and income taxes. These earnings improved 27.4 percent in 1985 to $203.8 million compared with $160.0 million in 1984. 1984 earnings were a 3.3 percent improvement compared with the $154.9 million reported in 1983, which was an 11.0 percent improvement over the 1982 results.

Earnings in 1985 reflected better operating results in both the department and specialty store segments, primarily due to higher gross margin ratios. Cost of goods sold as a percentage of sales improved to 71.7 percent in 1985 compared with 72.6 percent in 1984, primarily due to lower markdowns. This was partially offset by a $10.8 million decrease in the LIFO credit compared with the prior year.

In order to accelerate the improvement in operating results, the company has implemented programs to substantially reduce administrative and support service expenses that are not related to customer service. Management believes these programs will lower selling, general, and administrative expense as a percentage of sales for the coming year.

The rate of earnings increase in 1984 was affected by the cost to complete the inventory currency program, which has improved the freshness of the merchandise offered in the company's stores. In addition, intense promotional activity in the fourth quarter resulted in above normal markdowns that decreased earnings. These effects were partially offset by a $17.2 million LIFO credit, primarily due to lower inflation, increased inventory levels, and increased markdowns.

The major factors affecting earnings in 1983 were the improved operating profits of the specialty store segment, and a significant decline in the ratio of expense to sales due to sales growth and improved expense management. These effects were partially offset by the lower operating profit of the department store segment, due to lower gross margin ratios.

Interest expense was 3.3 percent of sales in 1985 compared with 3.1 percent in 1984 and 3.0 percent in 1983. The increase in 1985 was due to higher average borrowing for working capital purposes partially offset by lower average borrowing rates.

Nonoperating income consisted of the loss on sale of Holt Renfrew in 1985, costs relating to the unsolicited tender offer in 1984, and gains on sale of joint venture interest and retirements of debentures in 1983.

The effective income tax rate was 31.5 percent in 1985 compared with 23.9 percent in 1984 and 30.4 percent in 1983. The lower effective income tax rate in 1984 was primarily due to lower pretax earnings in relation to the level of investment credit and ESOB Plan credit and to the effect of tender offer costs.

On a comparable 52 week basis, sales increased 8.1 percent in 1985, 18.4 percent in 1984 and 19.7 percent in 1983. On a comparative store basis, sales increased 5.8 percent in 1985, 15.7 percent in 1984, and 15.6 percent in 1983.

The effect of inflation on the above sales gains is, in management's opinion, most closely approximated by the Department Store Inventory Price Index published by the Bureau of Labor Statistics. This index increased 2.0 percent in 1985, 1.0 percent in 1984, and 2.7 percent in 1983.

The Ten Year Financial Summary on page 34 is useful for historical information.

Financial Condition

Internally generated funds and short and long term borrowings are used to finance working capital needs, principally for accounts receivable and inventories.

During 1985, the company completed $250.0 million of public long term debt financings. The proceeds were used to reduce short term borrowings.

The company and Carter Hawley Hale Credit Corp. share $679.0 million of bank credit facilities of which no amounts were borrowed at February 1, 1986. Additionally, the company periodically borrows from banks at prevailing market rates on a short term basis to meet working capital needs.

Charge account term modifications during the last three years have reduced the cost of credit and significantly increased receivables turnover. These modifications included increases in the minimum monthly payment and the minimum purchase on long term revolving accounts.

Cash flow has been improved through ongoing balance sheet management programs involving inventory turnover, cash management, reduction of surplus investments, and improved management of other assets and liabilities.

Capital expenditures are financed through a combination of internally generated funds from operations, access to debt markets, property financings, and additional equity. During 1985, capital expenditures for new store space, store modernization, and support facilities and equipment were $127.4 million, compared with $107.3 million in 1984. During 1985, the company opened five department stores, one Neiman-Marcus store and 28 Contempo Casuals stores.

Consolidated Statement of Earnings

(In thousands, except per share data)	1985 52 Weeks	1984 53 Weeks	1983 52 Weeks
Sales	$3,977,913	$3,724,294	$3,101,682
Costs and expenses			
Cost of goods sold, including occupancy and buying costs	2,850,599	2,702,055	2,240,404
Selling, general, and administrative expenses	923,504	862,272	706,368
Interest expense and discount, net	131,235	117,237	92,345
	3,905,338	3,681,564	3,039,117
Earnings from continuing operations before nonoperating income and income taxes	72,575	42,730	62,565
Nonoperating income			
Loss on sale of Holt Renfrew	(2,450)		
Costs relating to unsolicited tender offer		(7,100)	
Gain on sale of joint venture interest			12,768
Gain on retirements of debentures			4,252
	(2,450)	(7,100)	17,020
Earnings from continuing operations before income taxes	70,125	35,630	79,585
Income taxes	22,100	8,500	24,200
Earnings from continuing operations	48,025	27,130	55,385
Discontinued operations			
Earnings (loss) from operations, net of income taxes of ($1,050) and $10,600		(510)	12,100
Gain on sale of Waldenbooks, net of income taxes of $29,850		63,050	
		62,540	12,100
Net earnings	$ 48,025	$ 89,670	$ 67,485
Primary earnings per common share			
Continuing operations	$ .92	$	$ 1.57
Discontinued operations		2.75	.36
	$ .92	$ 2.75	$ 1.93
Fully diluted earnings per common share			
Continuing operations	$	$ .83	$ 1.56
Discontinued operations		1.89	.34
	$ *	$ 2.72	$ 1.90

*Fully diluted earnings per common share are not shown as the effect of the calculation is anti-dilutive.

See accompanying Summary of Significant Accounting Policies and Financial Review.

Consolidated Balance Sheet

(In thousands)	*February 1, 1986*	*February 2, 1985*
Assets		
Current assets		
Cash	$ 18,147	$ 22,727
Accounts receivable, net	292,785	125,524
Merchandise inventories	776,831	717,300
Receivable on sale of Holt Renfrew	29,682	
Other current assets	41,416	39,487
	1,158,861	905,038
Property and equipment, net	855,494	823,569
Investment in finance subsidiaries	142,916	143,864
Other assets	77,496	74,735
	$2,234,767	$1,947,206
Liabilities and Shareholders' Equity		
Current liabilities		
Notes payable and current installments	$ 84,707	$ 50,370
Accounts payable	344,036	285,466
Accrued liabilities	158,967	134,562
Dividends payable	6,145	5,983
Current income taxes	8,355	16,933
Deferred income taxes	114,399	99,648
	716,609	592,962
Long term debt	551,613	396,654
Capital lease obligations	145,940	152,006
Other liabilities	57,857	55,922
Long term deferred income taxes	103,394	101,496
Redeemable preferred stock, $5 par value, stated at redemption value of $300 per share	300,000	300,000
Common stock, $5 par value	97,797	95,334
Other paid-in capital	149,957	140,358
Accumulated earnings	111,600	112,474
	$2,234,767	$1,947,206

See accompanying Summary of Significant Accounting Policies and Financial Review.

(In thousands)	*1985*	*1984*	*1983*
Cash from continuing operations			
Earnings from continuing operations	$ 48,025	$ 27,130	$ 55,385
Depreciation and amortization	75,017	72,278	65,796
Deferred income taxes	23,494	345	25,532
Loss on sale of Holt Renfrew, net of income taxes	2,519		
Gain on sale of joint venture interest, net of income taxes			(8,644)
Gain on retirements of debentures, net of income taxes, excluding gain attributable to the finance subsidiaries			(1,284)
Equity in undistributed earnings of finance subsidiaries			(15,304)
Cash from continuing operations	149,055	99,753	121,481
Cash from discontinued operations, including depreciation and deferred income taxes		4,654	22,078
Cash proceeds from sale of Waldenbooks, net of income taxes of $2[illegible]950		265,150	
	149,055	369,557	143,559
Financing			
Net increase (decrease) in notes payable	(41,089)	41,089	
Issuances of long term debt	250,000	50,000	15,000
Issuance of redeemable preferred stock		300,000	
Issuances of common stock	12,062	14,182	66,530
Retirement of common stock		(478,611)	
Redemption of nonredeemable preferred stock		(5,740)	
Reductions in long term debt and capital lease obligations	(25,681)	(18,880)	(78,695)
Net cash provided (used) by financing	195,292	(97,960)	2,835
Capital investments			
Store property and equipment purchased	(127,384)	(107,284)	(90,100)
Properties sold	20,442	1,350	41,545
Dividends from finance subsidiaries of prior year's earnings	948	13,542	
Net cash used for capital investments	(105,994)	(92,392)	(48,555)
Dividend payments	(53,638)	(50,129)	(43,454)
Other cash sources (uses)			
Accounts receivable, net	(167,261)	30,783	(10,492)
Merchandise inventories	(59,531)	(137,356)	(94,574)
Receivable on sale of Holt Renfrew	(29,682)		
Accounts payable and accrued liabilities	83,137	44,515	77,083
Prepaid pension contributions	(10,677)	(12,004)	
Other, net	(5,281)	(45,189)	(20,837)
Net other cash uses	(189,295)	(119,251)	(48,820)
Cash increase (decrease)	$ (4,580)	$ 9,825	$ 5,565

See accompanying Summary of Significant Accounting Policies and Financial Review.

Consolidated Statement of Nonredeemable Preferred Stock, Common Stock, and Other Shareholders' Equity

	Shares issued		Par value			
(Dollar amounts in thousands)	*Nonredeemable preferred*	*Common*	*Nonredeemable preferred*	*Common*	*Other paid-in capital*	*Accumulated earnings*
Balance, January 29, 1983	811,889	31,889,824	$ 4,059	$159,449	$ 214,009	$ 315,455
Net earnings						67,485
Cash dividends						
Common stock ($1.22 per share)						(41,979)
Nonredeemable preferred stock						(1,475)
Issuance of common stock		2,475,000		12,375	38,757	
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan		275,996		1,380	3,966	
Issuance of common stock to Profit Sharing Plan		389,249		1,946	5,563	
Conversion of nonredeemable preferred stock	(102,253)	172,528	(511)	863	(352)	
Exercise of stock options		137,975		690	1,853	
Balance, January 28, 1984	709,636	35,340,572	3,548	176,703	263,796	339,486
Net earnings						89,670
Cash dividends						
Common stock ($1.22 per share)						(23,052)
Nonredeemable preferred stock						(71)
Redeemable preferred stock						(27,006)
Issuance of common stock under Employee Stock Ownership Benefit Plan		95,500		477	1,696	
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan		155,555		778	2,403	
Issuance of common stock to Profit Sharing Plan		263,846		1,319	3,819	
Retirement of common stock		(17,952,700)		(89,763)	(130,516)	(258,332)
Conversion of nonredeemable preferred stock	(582,070)	982,214	(2,911)	4,911	(2,000)	
Redemption of nonredeemable preferred stock	(127,566)		(637)		(1,621)	(3,482)
Exercise of stock options		181,890		909	2,781	
Foreign currency translation adjustment						
Cumulative adjustment—beginning of year						(3,139)
Current year adjustment						(1,600)
Balance, February 2, 1985	—	19,066,877	—	95,334	140,358	112,474
Net earnings						48,025
Cash dividends						
Common stock ($1.22 per share)						(23,638)
Redeemable preferred stock						(30,000)
Issuance of common stock under Employee Stock Ownership Benefit Plan		91,746		459	2,154	
Issuance of common stock under Dividend Reinvestment and Stock Purchase Plan		118,444		592	2,522	
Exercise of stock options		282,348		1,412	4,923	
Reversal of foreign currency translation adjustment						4,739
Balance, February 1, 1986	—	19,559,415	$ —	$ 97,797	$ 149,957	$ 111,600

See accompanying Summary of Significant Accounting Policies and Financial Review.

Basis of Reporting
The consolidated financial statements include the accounts of the company and all subsidiaries except the finance subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation. Pretax earnings of the finance subsidiaries, before noninterest items, are included in the Consolidated Statement of Earnings as a reduction of interest expense.

Fiscal Year
The company's fiscal year ends on the Saturday closest to January 31st. Fiscal year 1985 comprised 52 weeks and ended on February 1, 1986. Fiscal years 1984 and 1983 comprised 53 weeks and 52 weeks and ended on February 2, 1985 and January 28, 1984.

Sales
Sales are net of returns, exclude sales tax, and comprise merchandise, services, and sales by leased departments.

Customer Accounts Receivable
An account is generally written off when the aggregate of payments made in the most recent six months is less than one full monthly scheduled payment or if it is otherwise determined that the account is uncollectable.

Inventories
Merchandise inventories are valued at cost, which is less than market, as determined by the retail method on the last-in, first-out (LIFO) basis.

Property and Equipment
Property and equipment are recorded at cost and include major renewals and improvements of a permanent nature. Other renewals and improvements and maintenance and repairs are expensed.

Depreciation and Amortization
Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the property and equipment or over the lives of the related leases, if such periods are shorter.

Store Preopening
Store opening and preopening costs are charged to selling, general, and administrative expenses during the year of the store opening.

Income Taxes
Income taxes are provided currently for all items included in the Consolidated Statement of Earnings regardless of when such taxes are payable. Deferred taxes related to current items arise principally from income on the balances due on installment sales. Deferred taxes related to noncurrent items result principally from accelerated depreciation. Income taxes are reduced currently for investment tax credits using the flow-through method.

Pensions
Pension plan expense is computed under accepted actuarial methods and includes amounts necessary to provide for current service costs, amortization of prior service costs principally over 30 years, and interest on unfunded amounts.

Earnings Per Share of Common Stock
Primary earnings per share are computed on the basis of the weighted average number of shares outstanding during the year, including dilutive stock options, after deduction of preferred dividend requirements. Fully diluted earnings per share are computed on the assumption that all of the outstanding convertible debentures and preferred stock were converted into common stock at the beginning of the year, or date of issuance if later, eliminating preferred dividend requirements and interest, less tax, on the convertible debentures.

Company Operations

The company is a retailer of merchandise through department stores and specialty stores. Department stores include The Broadway–Southern California, The Broadway–Southwest, Emporium Capwell, Thalhimers, John Wanamaker, and Weinstock's. Specialty stores include Bergdorf Goodman, Contempo Casuals, and Neiman-Marcus. Financial information by operating group is as follows:

(Dollar amounts in millions)	*1985*	*Percent of total*	*1984*	*Percent of total*	*1983*	*Percent of total*
Sales						
Department stores	$2,889.9	72.6%	$2,749.9	73.8%	$2,304.8	74.3%
Specialty stores	1,088.0	27.4	974.4	26.2	796.9	25.7
Total	$3,977.9	100.0%	$3,724.3	100.0%	$3,101.7	100.0%
Operating profit						
Department stores	$ 143.6	56.3%	$ 111.6	52.9%	$ 118.0	59.0%
Specialty stores	111.4	43.7	99.3	47.1	81.9	41.0
	255.0	100.0%	210.9	100.0%	199.9	100.0%
Corporate expense, net	51.2		51.0		45.0	
Interest expense and discount, net	131.2		117.2		92.3	
Earnings from continuing operations before nonoperating income and income taxes	72.6		42.7		62.6	
Nonoperating income (expense)	(2.5)		(7.1)		17.0	
Earnings from continuing operations before income taxes	$ 70.1		$ 35.6		$ 79.6	

Net corporate expense includes administrative and general expenses relating to corporate finance, personnel, real estate and construction, legal, and investme t functions.

Sales gains by operating group and by quarter were as follows:

	1985		*1984*		*1983*	
	All stores	*Comparative stores*	*All stores*	*Comparative stores*	*All stores*	*Comparative stores*
Operating group						
Department stores	5.1%	4.4%	19.3%	16.9%	18.3%	16.9%
Specialty stores	11.7	9.4	22.3	12.5	24.1	11.6
Total	6.8	5.8	20.1	15.7	19.7	15.6
Quarter						
First quarter	14.4%	10.5%	22.3%	18.9%	12.3%	7.8%
Second quarter	8.7	8.1	20.6	17.4	19.2	15.2
Third quarter	8.6	4.0	19.5	16.7	21.4	16.7
Fourth quarter	.1	2.7	18.9	12.3	23.4	19.8

Comparable calendar periods have been used in computing comparative stores sales gains percentages.

Assets employed and depreciation and amortization expense by operating group and corporate were:

(Dollar amounts in millions)	*1985*	*Percent of total*	*1984*	*Percent of total*	*1983*	*Percent of total*
Assets at year end						
Department stores	$1,395.1	63.3%	$1,122.8	57.7%	$1,018.7	56.8%
Specialty stores	553.7	25.1	561.7	28.8	479.6	26.8
Corporate	256.3	11.6	262.7	13.5	294.2	16.4
Total	$2,205.1	100.0%	$1,947.2	100.0%	$1,792.5	100.0%
Depreciation and amortization						
Department stores	$ 50.9	67.9%	$ 49.8	68.8%	$ 45.9	69.7%
Specialty stores	20.8	27.7	18.9	26.2	16.4	24.9
Corporate	3.3	4.4	3.6	5.0	3.5	5.4
Total	$ 75.0	100.0%	$ 72.3	100.0%	$ 65.8	100.0%

Corporate includes the corporate office, the Information Services and Market Services divisions, and investments in finance subsidiaries. Corporate assets exclude the receivable on sale of Holt Renfrew in 1985 and the investment in Waldenbooks in 1983.

Interest Expense and Discount

Interest expense and discount, which includes interest expense attributable to the finance subsidiaries (see page 28), increased due to higher average borrowings partially offset by lower average borrowing rates.

Components of net interest expense and discount are shown below:

(In millions)	*1985*	*1984*	*1983*
Discount on customer receivables sold to the finance subsidiaries	$ 70.0	$ 79.0	$ 71.9
Pretax earnings of the finance subsidiaries, before noninterest items	(27.5)	(32.0)	(28.3)
Interest expense attributable to the finance subsidiaries	42.5	47.0	43.6
Interest on long term debt	53.2	38.3	39.9
Imputed interest on capitalized lease obligations	12.3	12.7	13.2
Interest on short term debt	15.0	19.8	2.1
Discount on customer receivables sold to banks	13.8	13.1	11.7
Interest income	(.8)	(2.9)	(2.5)
Capitalized interest	(4.8)	(5.6)	(6.2)
Interest expense attributable to discontinued operations		(5.2)	(9.5)
Interest expense and discount, net	$131.2	$117.2	$ 92.3

Sale of Holt Renfrew

Subsequent to year end, the company sold its Canadian subsidiary, Holt Renfrew, for $29.7 million in cash, resulting in a loss of $2.5 million. Holt Renfrew's operating results are reflected in all periods presented. Its assets and liabilities and the cumulative foreign currency translation adjustment have been eliminated from the February 1, 1986, Balance Sheet, which reflects the receivable on the sale. Holt Renfrew's sales were $82.4 million in 1985, $74.3 million in 1984, and $67.9 million in 1983.

Discontinued Operations

In July 1984, the company sold its Waldenbooks subsidiary for $295.0 million in cash, resulting in a gain of $63.0 million, net of income taxes. Waldenbooks has been accounted for as a discontinued operation in all periods presented. Waldenbooks' sales were $196.8 million for the six months ended July 28, 1984, and $417.8 million in 1983.

Tax Expense

Taxes, including those of the finance subsidiaries, are summarized below:

(In millions)	*1985*	*1984*	*1983*
Income taxes			
Currently payable			
Federal	$ (4.9)	$ 5.0	$ (3.4)
State	3.5	3.2	2.1
	(1.4)	8.2	(1.3)
Deferred			
Federal	21.4	.9	22.5
State	2.1	(.6)	3.0
	23.5	.3	25.5
Total income taxes	22.1	8.5	24.2
Property taxes	28.3	25.7	22.2
Payroll taxes	58.6	56.1	46.2
Other	2.8	3.0	2.0
Tax expense	$111.8	$ 93.3	$ 94.6

Deferred income tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and their tax effects were:

(In millions)	*1985*	*1984*	*1983*
Deferred gross profit on installment sales	$ 14.6	$ .1	$ (.2)
Excess of tax over financial depreciation	11.9	8.2	11.2
Finance charge income	2.9		
Capitalized interest and other real estate costs	1.5	1.5	4.1
Inventory valuation	.9	(1.1)	(1.2)
Installment sale of joint venture interest		(4.3)	4.3
Gain on retirements of debentures			1.4
Charitable contribution carryover	(2.7)		
Deferred charges	(2.1)	1.6	3.3
Deferred compensation	(1.5)	(2.1)	(1.1)
Other, net	(2.0)	(3.6)	3.7
Deferred income tax expense	$ 23.5	$ .3	$ 25.5

Income taxes as a percent of earnings before income taxes differed from the statutory federal income tax rate as set forth below:

(Dollar amounts in millions)	*1985*	*Percent of pre-tax earnings*	*1984*	*Percent of pre-tax earnings*	*1983*	*Percent of pre-tax earnings*
Federal income tax at statutory rate	$32.3	46.0%	$16.4	46.0%	$36.6	46.0%
Investment credit	(8.2)	(11.7)	(4.9)	(13.8)	(8.8)	(11.0)
State income taxes	2.6	3.8	1.0	2.8	2.4	3.0
Capital gains benefit					(5.5)	(7.0)
Charitable contribution	(1.8)	(2.6)				
ESOB Plan credit	(1.5)	(2.1)	(1.2)	(3.4)	(1.1)	(1.3)
Tender offer costs			(2.3)	(6.4)		
Other, net	(1.3)	(1.9)	(.5)	(1.3)	.6	.7
Income taxes	$22.1	31.5%	$ 8.5	23.9%	$24.2	30.4%

Accounts Receivable and Credit Operations

Accounts receivable at year end were as follows:

(In millions)	*1985*	*1984*
Customer receivables	$856.2	$880.6
Notes and other receivables	32.9	26.9
	889.1	907.5
Less		
Customer receivables sold to finance subsidiaries (less $52.1 and $62.3 withheld pending collection and settlement of discount)	469.3	561.0
Customer receivables sold to banks (less $7.9 and $12.8 withheld pending collection and settlement of discount)	114.2	207.8
Allowance for doubtful accounts	12.8	13.2
	596.3	782.0
Accounts receivable, net	$292.8	$125.5

The company has sold without recourse $122.1 million of customer accounts receivable to a bank under a sales agreement that provides for the company to maintain approximately the same level of outstanding receivables sold by making additional sales on a monthly basis. The company may cease selling additional accounts receivable under this agreement on appropriate notice. The agreement provides for the company to continue to service the accounts receivable sold. On February 1, 1985, the company sold, on a one-time basis, without recourse, an additional $98.5 million of certain customer accounts receivable to another bank.

Customer receivables arise under credit plans provided by the company at all divisions except Contempo Casuals, which accepts only third party credit cards.

The following is selected information on the company's credit operations:

(Dollar amounts in millions)	*1985*	*1984*	*1983*
Credit sales as a percent of eligible sales	61.8%	61.4%	60.4%
Uncollectable account losses, net of recoveries, as a percent of credit sales	1.4%	1.2%	1.7%
Finance charge income	$126.7	$109.5	$97.1

Finance charge income is treated as a reduction of selling, general, and administrative expenses.

Inventories

Merchandise inventories were $776.8 million at February 1, 1986, compared with $717.3 million at February 2, 1985. In 1985, the LIFO adjustment to cost of sales was a credit of $6.4 million, compared with a credit of $17.2 million in 1984 and a charge of $.8 million in 1983. If all inventories had been valued on the first-in, first-out (FIFO) basis, they would have been higher by $26.5 million at February 1, 1986, $31.6 million at February 2, 1985, and $48.8 million at January 28, 1984. The book basis of LIFO inventories of a purchased subsidiary exceeded the tax basis by $10.9 million.

Property and Equipment

Property and equipment at year end were as follows:

(In millions)	*1985*	*1984*
Land	$ 63.1	$ 62.4
Buildings and improvements	292.4	270.1
Leasehold improvements	182.3	163.0
Fixtures and equipment	597.3	548.7
Construction in progress	33.0	32.2
Leased property under capital leases, primarily buildings	220.8	223.1
	1,388.9	1,299.5
Less accumulated depreciation and amortization		
Owned property	430.1	377.1
Leased property under capital leases	103.3	98.8
	533.4	475.9
Property and equipment, net	$ 855.5	$ 823.6

The company's program of increasing efficiency in warehousing operations, closing nonproductive stores, and relocating older stores resulted in a net credit of $4.8 million in 1983 which has been included in selling, general, and administrative expenses. Gains on the disposition of surplus real estate and facilities were offset by related disposition, relocation, and duplicate operating costs.

Capital expenditures during the year were as follows:

(In millions)	*Department stores*	*Specialty stores*	*Corporate*	*Total*
1985				
New stores	$61.3	$16.3		$ 77.6
Store modernization	23.7	15.5		39.2
Support facilities and equipment	6.9	1.5	$ 2.2	10.6
Total	$91.9	$33.3	$ 2.2	$127.4
1984				
New stores	$35.2	$12.7		$ 47.9
Store modernization	23.1	21.9		45.0
Support facilities and equipment	5.7	6.3	$ 2.4	14.4
Total	$64.0	$40.9	$ 2.4	$107.3
1983				
New stores	$17.3	$24.2		$ 41.5
Store modernization	19.4	19.4		38.8
Support facilities and equipment	4.4	.6	$ 4.8	9.8
Total	$41.1	$44.2	$ 4.8	$ 90.1

Expenditures for new stores include acquisition costs of land, buildings and improvements, and related fixtures and equipment. Store modernization expenditures include renovating, expanding, and re-equipping existing stores. Support facilities and equipment expenditures relate to office buildings, warehouses, and other nonstore outlays.

Leases

Company operations are conducted mainly in leased properties, which include retail stores, warehouses, offices, and other facilities. Leases are generally for periods of up to thirty years, with renewal options for substantial periods, except for Contempo Casuals leases, which are generally for ten to fifteen years. Leases are generally at fixed rentals, except that certain leases provide for additional rentals based on sales in excess of predetermined levels.

Rent expense for each year was as follows:

(In millions)	*1985*	*1984*	*1983*
Minimum rent	$59.5	$54.7	$49.4
Rent based on sales	9.6	8.4	5.8
Total rent expense	$69.1	$63.1	$55.2

Future minimum lease payments are as follows:

(In millions)	*Capital leases*	*Operating leases*
1986	$ 18.1	$ 52.6
1987	17.5	51.2
1988	17.4	50.9
1989	17.4	50.6
1990	17.3	50.7
Thereafter	213.6	950.2
Total future minimum lease obligations	$301.3	$1,206.2
Present value, including $6.1 current portion of capital lease obligations	$152.0	$ 330.8

Present value of operating leases is determined by discounting future minimum rent commitments, less assumed executory and administrative costs, at rates that approximate the lessor's financing costs at the inception of the lease.

Long Term Debt

Long term debt at year end was:

(In millions)	*1985*	*1984*
Senior debt		
6½-8¾ percent Notes due 1987-2008	$ 37.5	$ 44.9
9-9.95 percent Notes due 1987-2010	53.9	55.2
11-11⅛ percent Notes due 1995	250.0	
11½-12½ percent Notes		86.3
13.45 percent Note due 1999 (rate renegotiable in 1991)	50.0	50.0
9⅛-9.45 percent Sinking Fund Debentures due 1988-2008	75.0	75.0
11⅞ percent Sinking Fund Debentures due 1991-2010	75.0	75.0
Other	3.2	3.3
	544.6	389.7
4¾ percent Convertible Subordinated Debentures due 1987, convertible into common stock at $41.50 per share	7.0	7.0
Long term debt	$551.6	$396.7

Principal maturities of long term debt payable over the next five years are $78.6 million, $10.3 million, $3.8 million, $5.4 million, and $5.7 million. Long term debt at February 1, 1986, includes $136.2 million secured by property carried at $141.5 million.

Contingencies

The company is a defendant in certain legal actions. In the opinion of management, the disposition of these actions will not have a material adverse effect upon the company's financial position or results of operations.

Bank Credit Arrangements

The company and Credit Corp. share a Credit Agreement that provides $500.0 million of loan commitments under either or a combination of two credit facilities at variable rates of interest. Facility A provides for one-year revolving loan commitments, which may be extended, with the consent of the lender, for successive periods of 364 days. Facility B provides for three-year revolving loan commitments, which may be extended, with the consent of the lender, for successive periods of one year. Upon termination of the Facility B revolving loan commitments, any Facility B revolving loans then outstanding may be converted into a seven-year term loan. A commitment fee is payable on the unused portion. At February 1, 1986, no amounts were borrowed under the Credit Agreement.

The company and Credit Corp. also share $179.0 million of unsecured lines of credit. Borrowings under these lines are at prime rates of interest or lower with a commitment fee payable on any unused portion. At February 1, 1986, no amounts were borrowed against the lines of credit.

Carter Hawley Hale Finance Subsidiaries

The company finances customer accounts receivable through its unconsolidated finance subsidiaries, Credit Corp., CHH Finance Corp., and Carter Hawley Hale Overseas Finance N.V. In addition to capital invested by the company and accumulated earnings, the finance subsidiaries finance the purchase of customer accounts receivable through bank borrowings, debt issuances, and sales of commercial paper. The finance subsidiaries purchase the receivables at discounts sufficient to cover their fixed charges, principally interest expense, at least one and one-half times. Net earnings of the finance subsidiaries were $14.1 million in 1985, $16.5 million in 1984, and $15.3 million in 1983. During 1985 and 1984, dividends totaling $15.0 million and $30.0 million were paid to the company by the finance subsidiaries. The combined balance sheet of the finance subsidiaries, which reflects the elimination of all intercompany items, is presented below:

(In millions)	*February 1, 1986*	*February 2, 1985*
Assets		
Customer accounts purchased from Carter Hawley Hale Stores, Inc., less 10 percent withheld pending collection and settlement of discount	$469.3	$561.0
Cash and other assets	.9	1.4
	$470.2	$562.4
Liabilities and Investment of Carter Hawley Hale Stores, Inc.		
Notes payable		$ 50.0
Accrued liabilities	$ 10.2	10.4
8.45 percent Notes due 1986-1997	23.1	25.0
9.75 percent Notes due 1986	50.0	50.0
11.75-12.00 percent Notes due 1986-1988	238.0	263.0
10.60-11.25 percent Capital Notes		13.1
8.95 percent Subordinated Notes due 1986-1991	6.0	7.0
Investment of Carter Hawley Hale Stores, Inc. (including $53.9 and $54.9 of accumulated earnings)	142.9	143.9
	$470.2	$562.4

Retirement and Profit Sharing Plans

The company has several qualified noncontributory pension plans covering substantially all employees. An analysis of accumulated pension benefits and plan net assets, based on the latest available actuarial information prepared as of December 31, 1985 and 1984, is as follows:

(In millions)	*1985*	*1984*
Actuarial present value of accumulated plan benefits:		
Vested	$126.9	$123.7
Nonvested	8.5	9.0
	$135.4	$132.7
Net assets available for plan benefits	$127.0	$112.6

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9.0 percent in 1985 and 1984.

The actuarially computed pension expense for the qualified plans, using an interest rate assumption of 9.0 percent in 1985 and 1984 and 8.5 percent in 1983, was $8.6 million in 1985, $7.5 million in 1984, and $9.4 million in 1983. The company's contribution policy resulted in contributions exceeding the amount expensed by $4.0 million in 1985, $10.7 million in 1984, and $12.0 million in 1983. The additional contributions were made shortly after the end of each fiscal year and are reflected in the net assets available for plan benefits. The company's contribution policy is based on its program, begun in 1983 and expected to be completed in 1986, to increase net assets available for plan benefits to equal the actuarial present value of accumulated plan benefits. Pension contributions in excess of pension expense are being amortized to pension expense over the remaining actuarial amortization period.

The company also has unfunded nonqualified pension plans for certain employees for which $4.1 million was charged to expense in 1985, $3.5 million in 1984, and $2.1 million in 1983. The actuarial present value of accumulated benefits for these plans was $30.5 million at February 1, 1986, of which $16.6 million was vested, and $26.6 million at February 2, 1985, of which $14.1 million was vested. The value of book reserves for these plans was $9.9 million at February 1, 1986 and $7.7 million at February 2, 1985.

A contributory Profit Sharing Plan is available to substantially all employees who have completed one year of service. The company encourages employees to participate by allocating 3.0 percent of the company's pretax earnings, as defined, to employees who participate in the Plan. Employee and company contributions are used to buy shares of the company's common stock at prevailing market prices. At February 1, 1986, the Plan held 6.0 million shares, representing 31 percent of the company's common stock outstanding. The company's contribution to the Plan was $2.2 million in 1985, $1.4 million in 1984, and $2.7 million in 1983.

The company has a noncontributory, payroll-based, employee stock ownership benefit plan (ESOB Plan) covering substantially all employees eligible under the retirement and profit sharing plans. The company's contribution was $2.7 million in 1985, $2.3 million in 1984, and $2.1 million in 1983, and is equal to .5% of the payroll of eligible employees. The company receives a direct income tax credit for the amount of its contribution.

Employee Stock Option Plans

The company's stock option plans provide that key employees may be granted options to purchase the common stock of the company at not less than the market price on the date of grant. Options may be exercised over a ten-year period generally beginning one year from the date of grant. At February 1, 1986, options for 1,286,875 shares were outstanding at prices ranging from $13.25 to $28.75, of which options for 653,482 shares were exercisable, including outstanding options for 447,127 shares with stock appreciation rights attached, of which 225,561 were exercisable. At February 2, 1985, options for 1,514,917 shares were outstanding.

Redeemable Preferred Stock

In April 1984, the company sold one million shares of a new series of Cumulative Preferred Stock, $5 par value, to General Cinema Corporation for an aggregate purchase price of $300.0 million. The preferred stock provides for a 10 percent cumulative annual dividend and entitles the holder to 11.11 votes for each share held. The preferred stock is currently convertible at the holder's option into 12,227,407 shares of common stock of the company at a rate determined by dividing the redemption value by the conversion price, as defined. The current conversion price of $24.535 is subject to change upon issuance or sale of common stock at less than the market value or the current conversion price. At February 1, 1986, the market price of the common stock was $33.50.

The preferred stock has a $300 per share redemption value and is redeemable, at the company's option, in whole or in part, beginning April 15, 1989 with a premium decreasing from five to one percent of the redemption value payable on each redemption during the period April 15, 1989 through April 14, 1994. The company is required on an annual basis, commencing in April 1990, to redeem 20 percent of the preferred stock then outstanding.

At February 1, 1986, five million shares of preferred stock have been authorized.

Common Stock and Other Shareholders' Equity

At February 1, 1986, authorized common stock consisted of 60 million shares, $5 par value, of which 12,396,202 shares have been reserved for issuance upon conversion of outstanding convertible securities, 2,488,736 shares have been reserved under the employee stock option plans, 1,990,870 shares have been reserved for purchase by the Profit Sharing Plan, and 1,113,881 shares have been reserved for issuance under the Dividend Reinvestment and Stock Purchase Plan.

The Dividend Reinvestment and Stock Purchase Plan allows holders of common stock to elect to have their quarterly dividends reinvested in shares of the company's common stock. The Plan also enables participants to make direct cash purchases of common stock at the market price. At February 1, 1986, 2,081 common shareholders representing 2,470,337 total shares were participating in the Plan.

Certain of the company's debt agreements restrict the amount of accumulated earnings that may be distributed in dividends. At February 1, 1986, under the most restrictive of these covenants, $94.5 million of accumulated earnings were available for the payment of dividends.

Inflation and Changing Prices (Unaudited)

The Financial Accounting Standards Board Statement No. 33, "Financial Reporting and Changing Prices," requires the disclosure of the effects of inflation, measured by the current cost method, on certain historical financial data presented by the company. Due to the complexities of measuring the effects of inflation, the company believes these disclosures should be viewed only as an attempt to estimate the approximate effect of inflation and not as a precise measurement.

The following financial information has been adjusted to reflect the current cost of replacing assets used in operations which are most affected by changing prices (ie., inventories and property and equipment). Inventory has been adjusted to the FIFO method of inventory valuation which approximates current cost. Inflation adjustments for property and equipment have been approximated by using current construction cost estimates, published building industry cost indices, and actual costs of recently completed stores and improvements. In determining inflation adjusted net earnings from continuing operations, only cost of goods sold and depreciation and amortization are required to be restated. No adjustment to the company's cost of goods sold is required since the LIFO method of inventory valuation used in the historic financial statements reflects current cost. The inflation adjustment to depreciation and amortization expense has been computed on the basis of historical depreciation methods and lives applied to inflation adjusted cost of property and equipment. Net earnings for 1985 of $48.0 million reported in the company's historic financial statements is reduced by $29.1 million reflecting the inflation adjustment for depreciation and amortization. The statement does not permit adjustment to income tax expense for the effect of inflation.

(In millions, except per share and Consumer Price Index data) (In average 1985 dollars)	*1985*	*1984*	*1983*	*1982*	*1981*
Sales	$3,977.9	$3,858.0	$3,348.3	$2,887.3	$2,929.9
Earnings from continuing operations	18.9	(4.9)	20.4	8.1	10.3
Earnings per share from continuing operations	(.57)	(1.45)	.55	.20	.28
Net assets at year end	1,080.8	1,127.2	1,391.4	1,390.7	1,299.9
Purchasing power gain on net monetary liabilities owed during the year	38.7	31.9	35.3	30.2	64.8
Increase (decrease) in current cost of inventories and property and equipment held during the year*	19.6	(39.9)	(10.2)	134.0	46.7
Effect of increase in general price level on inventories and property and equipment	75.5	73.3	83.3	89.0	160.9
Increase (decrease) in current cost of inventories and property and equipment net of effect of increase in general price level	(55.9)	(113.2)	(93.5)	45.0	(114.2)
Cash dividends per common share	1.22	1.26	1.32	1.36	1.44
Market price per common share at year end	33	27¼	23	17½	17¼
Average Consumer Price Index	323.2	312.0	299.4	290.0	274.2

**At February 1, 1986, current cost of inventories was $803.3 million and current cost of net property and equipment was $1,262.1 million.*

The company is well protected against inflation in rentals of existing stores, since leases, other than for Contempo Casuals stores, generally are at fixed rates for terms of up to 30 years with renewal options for substantial periods. In addition, the company continues its efforts to limit the effects of inflation by giving increased attention to cost control and efficiency. The substantial decrease in the rate of inflation during the last four years has also had a favorable effect on operating expenses and interest rates.

Company Report on Responsibility for Financial Statements

The integrity and objectivity of the financial statements, including estimates and judgments inherent in the preparation of financial information and the selection of appropriate accounting principles, are the responsibilities of the company, as is all other information included in this Annual Report.

The company maintains a system of internal accounting controls, supported by documentation, to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the company. Limitations exist in any system of internal accounting controls based upon the recognition that the cost of the system should not exceed the benefits derived. The company believes its system of internal accounting controls, augmented by its internal auditing function, appropriately balances the cost/benefit relationship. The system provides for the prevention or detection of material errors and has been implemented and supported by written policies and guidelines, the internal audit function, a division of responsibility in organizational arrangements, and the selection and training of qualified personnel.

The financial statements have been examined by our independent accountants in accordance with generally accepted auditing standards in order that they might render their independent professional opinion, which is presented below. To express their opinion, independent accountants develop and maintain an understanding of the accounting and financial systems and controls, conduct tests, and employ such related audit procedures as they consider necessary.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the independent accountants, management, and internal auditors to discuss accounting principles, financial and accounting controls, the scope of the annual audit, internal audit, and other matters. Management's selection of independent accountants is reviewed by this committee and the independent accountants and the internal auditors have complete access to it, without management present, to discuss results of their audit and their opinions on adequacy of internal controls, quality of financial reporting, and any other matters of interest.

Report of Independent Accountants

Price Waterhouse

To the Directors and Shareholders of
Carter Hawley Hale Stores, Inc.

400 South Hope Street
Los Angeles, California 90071
March 27, 1986

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of earnings, changes in financial position and nonredeemable preferred stock, common stock, and other shareholders' equity present fairly the financial position of Carter Hawley Hale Stores, Inc. and its consolidated subsidiaries at February 1, 1986 and February 2, 1985, and the results of their operations and the changes in their financial position for each of the three fiscal years in the period ended February 1, 1986, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Carter Hawley Hale Stores, Inc.

Quarterly Information (*Unaudited*)

(In millions, except per share data)	*First quarter*	*Second quarter*	*Third quarter*	*Fourth quarter*	*Year*
1985					
Sales	$851.8	$858.7	$950.3	$1,317.1	$3,977.9
Cost of goods sold, including occupancy and buying costs	603.8	615.6	665.1	966.1	2,850.6
Selling, general, and administrative expenses	198.0	198.1	235.7	291.7	923.5
Interest expense and discount, net	30.7	32.1	33.1	35.3	131.2
Pretax earnings before nonoperating expense	19.3	12.9	16.4	24.0	72.6
Nonoperating expense				(2.5)	(2.5)
Pretax earnings	19.3	12.9	16.4	21.5	70.1
Income taxes	7.7	5.2	6.6	2.6	22.1
Net earnings	$ 11.6	$ 7.7	$ 9.8	$ 18.9	$ 48.0
Primary earnings per common share	$ .21	$ .01	$ .12	$ .58	$ .92
Fully diluted earnings per common share	$ *	$ *	$ *	$ *	$ *
1984					
Sales	$744.5	$789.9	$874.7	$1,315.2	$3,724.3
Cost of goods sold, including occupancy and buying costs	532.4	605.7	619.6	944.4	2,702.1
Selling, general, and administrative expenses	177.8	180.7	210.9	292.9	862.3
Interest expense and discount, net	23.3	32.0	29.9	32.0	117.2
Pretax earnings from continuing operations before nonoperating expense	11.0	(28.5)	14.3	45.9	42.7
Nonoperating expense		(7.1)			(7.1)
Pretax earnings from continuing operations	11.0	(35.6)	14.3	45.9	35.6
Income taxes	3.7	(13.8)	5.3	13.3	8.5
Earnings from continuing operations	7.3	(21.8)	9.0	32.6	27.1
Discontinued operations, net of tax					
Earnings (loss) from operations	1.2	(1.7)			(.5)
Gain on sale		63.1			63.1
Net earnings	$ 8.5	$ 39.6	$ 9.0	$ 32.6	$ 89.7
Primary earnings per common share					
Continuing operations	$ .17	$ (1.66)	$ .05	$ 1.29	$
Discontinued operations	.04	(.09)			(.02)
Gain on sale		3.33			2.77
	$ .21	$ 1.58	$ .05	$ 1.29	$ 2.75
Fully diluted earnings per common share					
Continuing operations		$ (.69)		$ 1.03	$ .83
Discontinued operations		(.05)			(.02)
Gain on sale		2.00			1.91
	$ *	$ 1.26	$ *	$ 1.03	$ 2.72

**Fully diluted earnings per common share are not shown as the effect of the calculation is anti-dilutive.*

Market Price Ranges of Common Stock (*Unaudited*)

	First Quarter	*Second Quarter*	*Third Quarter*	*Fourth Quarter*	*Year*
1985	$28½-25	$30⅞-27½	$29½-24½	$35⅝-26½	$35⅝-24½
1984	$32-18⅜	$31½-19	$23⅛-19½	$27-22⅜	$32-18⅜
1983	$23⅞-15½	$24⅜-20½	$24-20½	$24½-21¼	$24½-15½

The New York Stock Exchange is the principal market on which the common stock is traded. The redeemable preferred stock is not traded.

Carter Hawley Hale Stores, Inc.

Ten Year Financial Summary

(Dollar amounts in thousands, except per share data)

	1985	1984(1)
For the year		
Sales	$3,977,913	$3,724,294
Percent increase from prior year	6.8	20.1
Cost of goods sold, including occupancy and buying costs	2,850,599	2,702,055
Selling, general, and administrative expenses	923,504	862,272
Earnings from continuing operations before interest expense, nonoperating income, and income taxes	203,810	159,967
Interest expense and discount, net	131,235	117,237
Nonoperating income(3)	(2,450)	(7,100)
Earnings from continuing operations before income taxes	70,125	35,630
Income taxes	22,100	8,500
Earnings from continuing operations	48,025	27,130
Percent increase (decrease) from prior year	77.0	(51.0)
Discontinued operations, net of tax(4)		62,540
Net earnings	48,025	89,670
Cash dividends	53,638	50,129
Store property and equipment expenditures	127,384	107,284
Per common share		
Book value	$ 18.37	$ 18.26
Book value assuming conversion of preferred	20.74	20.71
Primary earnings from continuing operations	.92	—
Fully diluted earnings from continuing operations	•	•
Cash dividends	1.22	1.22
At year end		
Accounts receivable, net (including accounts sold)	$ 876,300	$ 894,274
Merchandise inventories	776,831	717,300
Owned property and equipment, net	737,966	699,295
Leased property under capital leases, net	117,528	124,274
Total assets	2,234,767	1,947,206
Long term debt	551,613	396,654
Capital lease obligations	145,940	152,006
Redeemable preferred stock	300,000	300,000
Nonredeemable preferred stock, common stock, and other shareholders' equity	359,354	348,166
Common shares outstanding (in thousands)	19,559	19,067
Common shareholders	12,205	10,692
Employees	56,000	56,000

(1) Fifty-three weeks.

(2) Reflects change to LIFO valuation of specialty store inventories.

(3) Includes loss on sale of Holt Renfrew of $2.5 million in 1985, tender offer costs of $7.1 million in 1984, gains on sale of joint venture interests of $12.8 million in 1983 and $3.8 million in 1982, and gain on retirements of debentures of $4.2 million in 1983, $8.0 million in 1982, $10.5 million in 1981, $3.1 million in 1980, and $1.8 million in 1979.

(4) Includes gain on sale of Waldenbooks of $63.0 million, net of income taxes, in 1984.

•Fully diluted earnings per common share are not shown as the effect of the calculation is anti-dilutive.

1983	1982	1981(2)	1980	1979	1978(1)	1977	1976
$3,101,682	$2,590,650	$2,485,697	$2,313,960	$2,145,410	$1,888,714	$1,462,631	$1,329,407
19.7	4.2	7.4	7.9	13.6	29.1	10.0	8.8
2,240,404	1,851,566	1,755,831	1,611,802	1,488,450	1,318,585	1,016,860	932,498
706,368	599,493	593,321	556,355	491,530	419,314	321,291	292,514
154,910	139,591	136,545	145,803	165,430	150,815	124,480	104,395
92,345	99,237	91,412	72,348	59,158	47,424	36,738	34,132
17,020	11,806	10,542	3,076	1,820			
79,585	52,160	55,675	76,531	108,092	103,391	87,742	70,263
24,200	11,650	16,350	26,600	44,600	46,900	39,000	29,993
55,385	40,510	39,325	49,931	63,492	56,491	48,742	40,270
36.7	3.0	(21.2)	(21.4)	12.4	15.9	21.0	(2.9)
12,100	8,515	5,437	7,410	5,570	6,780	4,950	4,010
67,485	49,025	44,762	57,341	69,062	63,271	53,692	44,280
43,454	39,450	36,262	33,616	31,073	27,289	24,552	23,022
90,100	129,469	114,987	155,493	131,438	105,910	97,429	76,611
$ 21.27	$ 20.58	$ 20.97	$ 20.69	$ 19.76	$ 18.25	$ 16.74	$ 15.68
21.44	20.84	21.25	21.23	20.52	19.25	17.96	17.08
1.57	1.27	1.35	1.79	2.42	2.21	1.93	1.57
1.56	1.27	1.33	1.72	2.25	2.06	1.81	1.51
1.22	1.22	1.22	1.16	1.10	1.00	.95	.90
$ 825,254	$ 782,387	$ 734,853	$ 647,644	$ 594,742	$ 497,368	$ 384,230	$ 328,814
579,944	485,370	439,227	376,387	344,553	309,332	234,416	213,474
664,397	652,042	615,813	565,218	462,590	424,768	331,558	280,938
131,169	138,377	148,842	156,724	166,494	182,296	184,815	180,952
1,961,694	1,826,314	1,686,150	1,611,548	1,454,207	1,379,014	1,164,278	1,063,786
358,268	415,366	404,438	403,317	304,360	304,885	218,218	206,780
158,075	164,376	174,677	181,733	190,291	204,744	200,733	194,212
783,533	692,972	647,039	620,217	580,783	528,161	481,170	444,877
35,341	31,890	28,920	26,540	25,192	24,148	23,470	22,729
13,182	13,288	12,864	12,870	13,611	14,218	14,350	14,098
52,000	49,000	49,000	48,000	50,000	51,000	39,000	38,000

Information as of year end.
Gross store space in thousands of square feet.

	1985	1984	1983	1982	1981
Department Stores					
The Broadway—Southern California					
Number	41	40	40	40	40
Store space	7,101	6,971	6,971	6,971	7,052
The Broadway—Southwest					
Number	12	10	10	10	9
Store space	1,877	1,609	1,609	1,609	1,472
Emporium Capwell					
Number	22	22	21	20	20
Store space	5,246	5,246	5,065	4,934	4,927
Thalhimers					
Number	25	25	26	25	25
Store space	2,588	2,445	2,507	2,373	2,373
John Wanamaker					
Number	16	16	16	16	16
Store space	4,356	4,356	4,356	4,356	4,356
Weinstock's					
Number	12	12	12	12	12
Store space	1,935	1,935	1,935	1,935	1,935
Total Department Stores					
Number	128	125	125	123	122
Store space	23,103	22,562	22,443	22,178	22,115
Specialty Stores					
Bergdorf Goodman					
Number	1	1	1	1	1
Store space	250	250	250	250	250
Contempo Casuals					
Number	133	105	79	66	51
Store space	546	429	323	274	215
Neiman-Marcus					
Number	22	21	20	18	16
Store space	3,230	3,106	2,944	2,622	2,347
Total Specialty Stores					
Number	156	127	100	85	68
Store space	4,026	3,785	3,517	3,146	2,812
Total Operations					
Number	284	252	225	208	190
Store space	27,129	26,347	25,960	25,324	24,927

Robert O. Anderson, Chairman of the Executive Committee of Atlantic Richfield Company. Director since 1975.[4]

Norman Barker, Jr., Former Chairman of the Board of First Interstate Bank of California and Vice Chairman of First Interstate Bancorp. Director since 1970.[1,2,3,4]

Benjamin F. Biaggini, Chairman Retired of Southern Pacific Company. Director since 1983.[2,3,5]

William L. Brown, Chairman and Chief Executive Officer of Bank of Boston Corporation and its principal subsidiary, The First National Bank of Boston. Director since 1984.[2]

Waldo H. Burnside, President and Chief Operating Officer of Carter Hawley Hale Stores, Inc. Director since 1980.[1]

Edward W. Carter, Chairman of the Board Emeritus of Carter Hawley Hale Stores, Inc. Director since 1946.[1]

Arthur L. Crowe, Executive Vice President of Carter Hawley Hale Stores, Inc. Director since 1977.[5]

John T. Dorrance, Jr., Chairman of the Executive Committee of Campbell Soup Company. Director since 1978.[2,4]

Samuel Frankenheim, Senior Vice President, General Counsel, and a member of the Office of the Chairman of General Cinema Corporation. Director since 1984.[4]

Walter B. Gerken, Chairman of the Board and Chief Executive Officer of Pacific Mutual Life Insurance Company. Director since 1977.[1,3,4,5]

Prentis C. Hale, Former Chairman of the Board of Carter Hawley Hale Stores, Inc. Director since 1949.[5]

Philip M. Hawley, Chairman of the Board and Chief Executive Officer of Carter Hawley Hale Stores, Inc. Director since 1970.[1]

Harold J. Haynes, Senior Counselor to the Bechtel Group, Inc. Director since 1977.[2,3,4]

J. Atwood Ives, Vice Chairman, Chief Financial Officer and a member of the Office of the Chairman of General Cinema Corporation. Director since 1984.[1,2]

Herbert W. Jarvis, Senior Executive and a consultant to the Board of Sybron Corporation. Director since 1984.[3]

Donn B. Miller, Partner in the Los Angeles-based law firm of O'Melveny & Myers. Director since 1974.[1]

Walter J. Salmon, Stanley Roth Sr. Professor of Retailing at the Graduate School of Business Administration, Harvard University. Director since 1974.[2,5]

Jean Head Sisco, Partner in Sisco Associates, Management Consultants. Director since 1977.[2,5]

Richard A. Smith, Chairman of the Board, Chief Executive Officer, and a member of the Office of the Chairman of General Cinema Corporation. Director since 1984.[1]

Robert J. Tarr, Jr., President, Chief Operating Officer, and a member of the Office of the Chairman of General Cinema Corporation. Director since 1984.[3]

William B. Thalhimer, Jr., Chairman of the Board and Chief Executive Officer of Thalhimer Brothers, Incorporated, a subsidiary of Carter Hawley Hale Stores, Inc. Director since 1978.[1,5]

Hugo Uyterhoeven, Timken Professor of Business Administration and Senior Associate Dean at the Graduate School of Business Administration, Harvard University. Director since 1984.[5]

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee
(4) Nominating Committee
(5) Public Policy Committee

Corporate Officers

Philip M. Hawley, Chairman of the Board and Chief Executive Officer

Waldo H. Burnside, President and Chief Operating Officer

Arthur L. Crowe, Executive Vice President

John M. Gailys, Executive Vice President and Chief Financial Officer

J. Hart Lyon, Executive Vice President

Edwin J. Holman, Senior Vice President

Edward S. Waterbury, Senior Vice President

D. Clair Brumbaugh, Vice President

E. J. Caldecott, Vice President

Paul E. Chevalier, Vice President

Arthur G. Coons, Vice President

Brian L. Fleming, Vice President

Robert J. Gilmartin, Vice President

Harry Levitt, Vice President

J. Scott Meyer, Vice President

Larry G. Petersen, Vice President

Francis T. Phalen, Vice President

E. Harlin Smith, Vice President

Dale G. Thune, Vice President

Walter W. Tuthill, Vice President

John F. Busey, Treasurer

James L. Vandeberg, Secretary and Corporate Counsel

Division Management

Department Stores

The Broadway-Southern California
H. Michael Hecht, Chairman
Richard F. Clayton, President

The Broadway-Southwest
Steven P. Marra, President

Emporium Capwell
David H. Folkman, President
Jack L. Richardson, Chairman

Thalhimers
William B. Thalhimer, Jr., Chairman
Stewart M. Kasen, President

John Wanamaker
Richard L. Boje, Chairman
Jeffrey W. Comment, President

Weinstock's
Cheryl Nido Turpin, President

Specialty Stores

Bergdorf Goodman
Ira Neimark, Chairman
Dawn Mello, President

Contempo Casuals
Eve A. Rich, Chairman
Bernard Zeichner, President

Neiman-Marcus
Richard C. Marcus, Chairman
David L. Dworkin, President

Support Divisions

Information Services
R. Vincent Conant, President

Market Services
Gregory C. Crews, President

550 South Flower Street, Los Angeles, California 90071, Telephone: (213) 620-0150

Symbol: CHH, New York Stock Exchange, Pacific Stock Exchange, London Stock Exchange

Security Pacific National Bank, Corporate Services Division, 2-70, P.O. Box 60228, Terminal Annex, Los Angeles, California 90060

Price Waterhouse

O'Melveny & Myers, Los Angeles

The annual meeting of shareholders will be held at the Hyatt Regency Hotel, Broadway Plaza, Hope and Seventh Streets, Los Angeles, California, on Wednesday, June 4, 1986, at 10:00 a.m.

A copy of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission is available upon request to: The Secretary, Carter Hawley Hale Stores, Inc., 550 South Flower Street, Los Angeles, California 90071.

Carter Hawley Hale's dividend reinvestment service is a convenient way for shareholders to increase their investment in the Company. It enables shareholders to apply quarterly dividends or cash deposits they may wish to make toward the purchase of additional shares of Carter Hawley Hale common stock. For information write to Security Pacific National Bank, Corporate Services Division, 2-70, P.O. Box 3546, Terminal Annex, Los Angeles, California 90051.

Carter Hawley Hale

550 South Flower Street
Los Angeles, California 90071

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